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FISCAL IMPACT STATEMENT

LS 6378 | **NOTE PREPARED:** Nov 19, 2003
BILL NUMBER: SB 56 | **BILL AMENDED:**

SUBJECT: Property Tax Deferral for Senior Citizens.

FIRST AUTHOR: Sen. Simpson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill allows a taxpayer who meets income and age guidelines to defer payment of a certain part of the taxpayer's property tax liability on a homestead until the taxpayer dies or sells the property. The bill also makes an appropriation for state replacement of deferred taxes.

Effective Date: January 1, 2004.

Explanation of State Expenditures: This bill requires the state to distribute funds from the state General Fund to the county treasurer equal to the amount of the deferred taxes allowed under this bill, less an amount equal to the deferred taxes imposed by the state (the State Fair and State Forestry funds). This bill would result in transfers from the General Fund to county treasurers of between \$4.6 M and \$8.4 M in FY 2004, between \$9.9M and \$18.0M in FY 2005, between \$11.1 M and \$20.2 M in FY 2006, and between \$12.3 M and \$22.3M in FY 2007.

Explanation of State Revenues:

Explanation of Local Expenditures: The administration of this bill would impose additional duties on county auditors and county treasurers, but the effect of these duties on local expenditures cannot be estimated.

Explanation of Local Revenues: Beginning with taxes due and payable in CY 2004, this bill allows the owner of a homestead to request the deferment of ad valorem property taxes which are greater than the base amount if the owner is over 65, has at least a 20% equity interest in the homestead, and the combined adjusted gross income is \$24,000 or less. The base amount is the value of the ad valorem property taxes due and payable in CY 2002 or, if the claimant did not own the property in CY 2002, the property taxes due and payable in the first year that the claimant is the homestead owner. Property taxes resulting from improvements to the property also may not be deferred.

The deferment of property taxes under this bill creates a lien on the property for the amount of taxes due which must be paid by the claimant, their heirs, or the person to whom title eventually passes. No interest or penalty accrues until after the deferred taxes become due, which is when the claimant ceases to occupy the property, fails to maintain a 20% equity interest, has died and the inheritance tax return is due, or the owner fails to comply with requirements of a lien senior to the deferred taxes.

The maximum amount of property taxes that could be deferred in CY 2004 is estimated to be between $9.2 M and $16.8 M; between $10.5 M and $19.1 M in CY 2005; between $11.7 M and $21.3 M in CY 2006; and between $12.8 M and $23.3 M in CY 2007. At some point the deferred taxes being paid would be approximately equal to the new deferments; however, the number of those turning 65 in Indiana will increase (and increase rapidly after CY 2009), so this equilibrium will not be reached before CY 2010.

The deferred amount would not reduce the funds available to units receiving revenues from ad valorem property taxes, since the county would receive a transfer from the state General Fund equal to the value of property taxes deferred in that year. Deferred taxes paid after the end of the deferment period would be collected by the county treasurer and then transferred to the Auditor of State for the General Fund.

Estimation Issues: The low end of the range was estimated by taking the Department of State Revenue's (DOR) 2001 Individual State Income Tax data and estimating (using statistical methods) the assessed value (AV) associated with the property tax deduction. The value of each household's gross income, property tax paid, and assessed value of real property was estimated for CY 2002 through CY 2007. The eligibility of each household for the deferment program was then computed for each year, and the value of deferred tax for that year was also computed. These were then totaled to provide a state total.

According to the 2001 DOR data, there were 285,000 households where the taxpayer claimed either an over-65 deduction or a blind/disabled deduction and paid property taxes. This translates to an estimated 214,000 owner-occupied households, since the ratio of over-65 deductions to the sum of over-65 and blind/disabled is about 75% (from DLGF data). The 2000 Census estimate of the number of owner-occupied households where the owner is over 65 was 390,000, which is 82% higher. The estimates derived from the DOR data were therefore inflated by 82% to produce the high estimate, which is consistent with the Census data.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local government units funded by ad valorem property taxes; County auditors and treasurers.

Information Sources: U.S. Bureau of the Census; Department of Revenue; Department of Local Government Finance (through the Local Government Database).

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